

Message Text

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ACTION EB-08

INFO OCT-01 NEA-10 ISO-00 SP-02 USIA-06 AID-05 NSC-05
TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 PA-01 PRS-01 /080 W
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R 241525Z AUG 77
FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 8666
INFO AMEMBASSY ABU DHABI
AMEMBASSY DOHA
AMEMBASSY JIDDA
AMEMBASSY KUWAIT

C O N F I D E N T I A L CAIRO 14066

E.O. 11652: GDS
TAGS: EFIN
SUBJECT: GODE LOAN STATUS: DEPUTY PRIME MINISTER'S AND MORGAN
STANLEY OFFICIAL'S COMMENTS

1. SUMMARY: GOE IS AT POINT OF CLEARING UP ITS SUBSTANTIAL
EXTERNAL DEBT ARREARS PROBLEM, USING GODE DIRECT AND GUARANTEED
LOAN FUNDS THUS FAR ADVANCED, PLUS OTHER RESOURCES. ECONOMIC
LEADERSHIP IS CONCERNED, HOWEVER, THAT GODE WILL NOT BE FORTH-
COMING ON BOP FINANCING FOR REMAINDER OF YEAR. MORGAN STANLEY
BANK OFFICIAL CHARGED WITH IMPLEMENTATION OF GODE LOAN BELIEVES
FINANCING LIKELY WILL BE FURNISHED TO MEET SEPTEMBER-DECEMBER
OBLIGATIONS, BUT NOTES FURTHER TALKS WITH SAUDI FINANCIAL
FIGURES ARE NCESSSARY AND REMARKS MUTUAL LACK OF TRUST
BETWEEN PRINCIPALS TO GODE-GOE AGREEMENT. END SUMMARY.

2. DEPPRIMIN QAYSUNI IN CONVERSATION WITH AMBASSADOR
AUGUST 22 PRIMARILY ON HUMPHREY AMENDMENT (SEPTEL - NOTAL)
PASSED US WHAT ON SURFACE APPEARS BE CONTRADICTORY INFORMATION
ON STATUS OF GODE LOAN AND SHORT TERM DEBT ARREARS QUESTION.
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WITH OTHER EMBOFFS AND SENIOR GOE OFFICIALS PRESENT, QAYSUNI
SAID HE EXPECTS GOE PAYMENTS TO BE CURRENT WITHIN "NEXT FEW
DAYS," I.E., BY END OF AUGUST, DESPITE MAGNTUDE OF DEBT
SERVICE PROBLEM WHICH HAD OVERTAKEN EGYPT THIS YEAR. IN
THIS CONNECTION, HE SAID ARREARS TOTALLED SOME \$610 M AT
BEGINNING OF 1977 AND HAD BEEN INCREASING BY \$150 M PER
MONTH SINCE THEN. (NOTE: APPARENTLY \$150 M IS AVERAGE

FIGURE FOR TAOTAL MONTHLY OBLIGATIONS COMING DUE -- SEE BELOW.)
WITH CONCLUSION OF \$1,500 M GODE LOAN, HOWEVER, ONE-HALF
OF WHICH HAS BEEN MADE AVAILABLE IN CASH, PROBLEM IS ON WAY
TO RESOLUTION SOON. (NOTE: THIS FORMULATION SQUARES ROUGHLY
WITH RPEVIOUS INFORMATION WE HAD RECEIVED ON STATUS OF LOAN
AND PAYMENTS, AND WITH EXPRESSED INTENT OF CREDIT AN
ANNOUNCED AT MAY IBRD CG.) QAYSUNI NOTED HE IN MIDST OF
DISCUSSION ON LOAN IMPLEMENTATION WITH MORGAN STANLEY GROUP
HEADED BY RICHARD DEBS.

3. BRIEF TETE-A-TETE BETWEEN QAYSUNI AND AMBASSADOR AT END
OF GENERAL MEETING REVEALED MORE DISTURBING NEWS FROM
EGYPTIAN VIEWPOINT. QAYSUNI PRIVATELY SAID HE FEARS GODE
MAY BE DRAGGING ITS FEET ON DISBURSEMENT OF REMAINING \$750 M
IN FUNDS. DEPRIMIN HAS RECEIVED INTIMATIONS THAT SAG MINFIN
ABA AL KHAYL IS OF OPINION THAT GODE SHOULD PRESS FOR DEVELOP-
MENT PROJECT USES FOR REST OF LOAN. QAYSUNI SAID HE HAS
OFFERED TO TRAVEL TO RIYADH TO DISCUSS MATTER AND IMPRESS ON
GODE NEED FOR BOP ASSISTANCE UTILIZATION OF FURTHER \$750 M,
BUT HAS BEEN INFORMED THAT ABA AL KHAYL IS IN LONDON AND GODE
EXECUTIVE DIRECTOR DUKHAIL IS IN BRIGHTON (OF ALL PLACES).
QAYSUNI, HOWEVER, DID NOT REQUEST ASSISTANCE FROM OR ACTION
BY USG ON MATTER.

4. LENGTHY TALK WITH DEBS BY AMBASSADOR AND E/C COUNS
AUGUST 23 PROVIDED FURTHER DETAIL ON CURRENT STATE OF GOE
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FINANCES AND GODE LOAN. DEBS SAID IN ACTUALITY \$825 M HAS
BEEN MADE AVAILABLE BY GODE, MINUS \$82 M STILL TO BE PAID
IN BY QATAR, AND HAD BEEN USED TO MOP UP ARREARS THROUGH
END OF APRIL. GOE HAS NOW DECIDED TO USE OTHER RESOURCES
--PROCEEDS OF CHASE SYNDICATED \$250 M LOAN, \$67 M IN
CONVERTIBLE DEVELOPMENT BOND ISSUE RECEIPTS AND (20 M IN
TRANSFERS FROM PETROLEUM SECTOR -- TO CLEAR ARREARS MAY
THROUGH END OF AUGUST. EGYPTIANS ARE COUNTING HEAVILY ON
REMAINING \$650 M FROM GODE, HOWEVER, TO MEET OBLIGATIONS
DURING LAST FOUR MONTHS OF 1977.

5. ACCORDING DEBS, GROSS TOTAL OF THOSE SEPTEMBER-DECEMBER
DEBTS COMING DUE IS \$730 M. HE AND HIS BANK GROUP ARE
WORKING WITH GOE AT PESENT ON EXPECTED INCOME TO DETERMINE
NET REQUIREMENT. (DEBS, LIKE EVERYONE ELSE CONCERNED WITH
EGYPTIAN ECONOMIC AFFAIRS, COMMENTED ON DIFFICULTY OF
OBTAINING RELIABEL STATISTICS FROM GOVT.) LIKELIHOOD IS
THAT VIRTUALLY ALL OF GODE LOAN BALANCE WILL BE NEEDED (BUT
AS OF LATE AUGUST 24, PRECISE TOTAL HAD NOT BEEN DETERMINED,
ACCORDING DEBS). MORGAN STANLEY OFFICIAL ALSO NOTED THAT
DEBT SERVICE OBLIGATIONS THIS YEAR HAVE RUN THUS FAR
AT \$100-\$150 M MONTHLY RATE. AUGUST TOTAL IS \$150 M; MONTHLY BILLS

SEPTEMBER-DECEMBER WILL AVERAGE ABOUT \$180 M, HOWEVER.

6. DEBS PLANS TRAVEL TO BRIGHTON (LEAVING CAIRO AUGUST 24) TO DISCUSS SITUATION WITH DUKHAIL AND POSSIBLY FURTHER TRIP IN THIS REGARD TO SWITZERLAND, WHERE HE UNDERSTANDS ABA AL KHAYL IS ON VACATION. HE DOES NOT AT THIS TIME ANTICIPATE GREAT DIFFICULTY IN CONVINCING GODE OFFICIALS OF NEED FOR CONTINUING BOP CASH ASSISTANCE, ALTHOUGH HE IS AWARE OF GENERAL DESIRE ON THEIR PART (ESPECIALLY THAT OF ABA AL KHAYL) TO BEGIN CHANNELLING FUNDS INTO DEVELOPMENT PURPOSES. PRIME PROBLEM IN HIS VIEW IS GETTING THEM (ESPECIALLY KUKHAIL) TO ACT. DEBS REMARKED LACK OF TRUST BETWEEN SAUDI AND EGYPTIAN AUTHORITIES AND SENSITIVITY OF BANK'S ROLE ARE HAMPERING MORGAN STANLEY'S EFFORTS TO CONFIDENTIAL

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EXPEDITE IMPLEMENTATION OF LOAN. EGYPTIANS CONDUCT THEIR DEALINGS WITH GODE CLOSE TO VEST, DUE TO GODE BELIEF SUBSTANTIAL ARAB FUNDING IS ITS "RIGHT" AS CONFRONTATION STATE AND TO EGYPTIAN RELUCTANCE TO BE FORTHCOMING WITH RELATIVELY LESS SOPHISTICATED BUT, IT SO HAPPENS, RICH SAUDI BROTHERS. HE NOTED THIS LACK OF EMPATHY EXTENDS TO PERSONAL LEVEL OF RELATIONSHIP BETWEEN QAYSUNI AND ABA AL KHAYL.

7. COMMENT: CHANGE OF SIGNALS ON USE OF FUNDS BY GODE COULD INDEED HAVE SERIOUS IMPLICATIONS FOR GODE'S EFFORTS TO MEET ITS BILLS ON TIME THIS YEAR, THUS REESTABLISHING CREDIT WORTHINESS AND CLEARING DECKS FOR DEALING WITH DEBT SERVICE PROBLEM OVER NEXT YEAR OR MORE. BOTH QAYSUNI AND MINECON EL SAYEH STRESSED IN AUGUST 22 MEETING THAT SEVERE BOP DIFFICULTIES WOULD CONTINUE THROUGH AT LEAST END OF 1978. IF DEBS IS CORRECT IN HIS ASSESSMENT BASICALLY THAT GODE WILL PROVIDE \$650 M LOAN BALANCE IN CASH AFTER FURTHER PERSUASION, HOWEVER, FINANCIAL SITUATION FOR 1977 WILL REMAIN AS DEPICTED AT PARIS CG MEETING: SATISFACTORY FOR TIME BEING, WITH FURTHER PROBLEMS TO BE EXPECTED AFTER NEW YEAR BEGINS.
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